



OFFICE OF THE CITY AUDITOR

Leslie I. Tanaka, CPA, City Auditor

POWERS, DUTIES AND FUNCTIONS

The Revised City Charter amendments, approved by the voters in the November 2002 General Election, authorized the City Council to establish the Office of the City Auditor (OCA) as a separate and independent agency to strengthen the auditing function in city government and ensure that the agencies and programs of the City are held to the highest standard of accountability to the public (Sec. 3-501.1, RCH). The charter affords the auditor the independence to initiate work under the auditor's authority and to consider requests for work from the council. In addition and for the purpose of carrying out an audit, the charter empowers the auditor to have full, free, and unrestricted access to any city officer or employee and grants authorization to examine and inspect any record of any agency or operation of the City.

The charter further provides that the City Auditor conduct or cause to be conducted: 1) the annual financial audit of the City, 2) performance audits of the funds, programs, and operations of any agency or operation of the City, and 3) follow-up audits and monitoring of compliance with audit recommendations by audited entities. All audits are conducted in accordance with government auditing standards and audit findings and recommendations are set forth in written reports of the City Auditor.

The Office of the City Auditor was created on July 1, 2003, with the appointment of Mr. Leslie Tanaka, CPA, as the City and County of Honolulu's first independent City Auditor.

OCA'S MISSION

The Office of the City Auditor's mission is to promote accountability, fiscal integrity and openness in city government. The Office of the City Auditor will examine the use of public funds, evaluate programs and activities, and provide timely, accurate and objective analyses, options and recommendations to decision makers in order to ensure that the City's resources are being used to effectively and efficiently meet the needs of the public.

YEAR IN REVIEW



Office of the City Auditor receives the 2005 Silver Knighton Award in San Jose for the Audit of the City's Road Maintenance Practices.

Fiscal year 2006, our third year in operation, was very productive for the Office of the City Auditor. With an office staff of only eight—six auditors, one office manager and the City Auditor—we took on an ambitious work program that included six performance audits and two contract audits.

The highlight of the year was receiving the 2005 Silver Knighton Award in the medium shop category (between 6 and 15 auditors) for our *Audit of the City's Road Maintenance Practices*. The award was presented to us in May 2006 at the National Association of Local Government Auditors Annual Conference in San Jose, California.

SUMMARY OF REPORTS TO COUNCIL AND MAYOR

We completed and issued three performance audit reports, one contract study and one contract audit report during FY2005-06. The three performance reports are: 1) *Audit of the Selected City Information Technology Controls*, 2) *Audit of the City's Personal Services Contract Practices*, and 3) *Audit of the City's Debt Service Practices*. In addition, we issued a study entitled *Cap-*

itive Insurance Study for the City and County of Honolulu. The study was conducted by First Risk Management Services, Inc. We also continue to oversee the financial audit of the City, which resulted in findings and recommendations for the fiscal year ended June 30, 2005, by Nishihama & Kishida, CPA's, Inc., the contract auditor. Although released after June 30, 2006, we also completed the following performance audits according to our annual work plan for FY2005-06: 1) *Audit of the City's Executive Staff's Out-of-State Travel*, 2) *Audit of the Neighborhood Board System*, and 3) *Audit of Selected Management Issues at the Honolulu Board of Water Supply*. All of these reports are available to the public on the Office of the City Auditor's web page (www.honolulu.gov/council/auditor).

Financial Audit of the City and County of Honolulu for FY2004-05

Contract auditor, Nishihama & Kishida, CPA's, Inc. submitted their findings and recommendations for the financial audit of the City and County of Honolulu for FY2004-05 to the City Council in February 2006. Their findings included: inadequate demonstration of financial assurance for the costs of postclosure care of the Waipahu and Kapaa municipal solid waste landfills; erroneous calculations of total tenant payments and inadequate documentation in tenant files; and insufficient documentation of subrecipient monitoring.

It was also reported that three of the five findings from the previous year's audit have been resolved. The other two findings were still applicable in the FY2004-05 audit. In addition, five out of six findings from FY1999-2000 through FY2002-03, which were reported as still applicable in the previous year's audit, were resolved in FY2004-05. The other finding for that time period was still applicable in the FY2004-05 audit.

Audit of the Selected City Information Technology Controls

This audit was initiated by the City Auditor due to the increasing reliance on information technology-based processes to support current government service initiatives to the public, along with increasing general concern among governments at all levels and the public over information security. The audit assessed the adequacy of selected general information security controls employed by the Department of Information Technology, such as backup and recovery, physical and environmental controls, and service continuity/contingency planning. We found that the Department of Information Technology's control framework does not provide sufficient oversight to ensure comprehensive and effective security management of the City's information technology systems. We also found physical and environmental controls which were inadequate to protect key city information technology systems and resources, and a lack of disaster recovery and contingency planning.



Paper towels are used to monitor water leak in ceiling of DIT's computer room.

We recommended that the department develop a comprehensive IT security plan; seek funding to facilitate a citywide risk assessment; clarify authority and lines of responsibility for citywide security management; improve security for the data center; seek ways to further improve routine backup and recovery practices; pursue an appropriate funding program for disaster recovery planning; and coordinate and seek agreements from external departments and agencies regarding supporting elements and services related to physical controls and disaster recovery planning.

We also recommended that the mayor ensure the department receives appropriate budgeting consideration for physical and environmental control priorities, improvements to backup and recovery, and disaster recovery planning; and facilitate discussions between the department and other city agencies to ensure proper coordination in support of physical and environmental controls and disaster recovery planning requirements.

Audit of City's Personal Services Contract Practices

This audit was initiated by the Office of the City Auditor as provided in the Revised Charter of Honolulu. The City Auditor selected the City's personal services contract practices for review because of on-going concerns about the City's use, and level of information and reporting, of personal services contracts. We found that the City's personal services contract practices violate charter and ordinance provisions, the contract process lacks accountability, and several contract practices are questionable.

We recommended that the Department of Human Resources ensure that executive departments and agencies use personal services contract judiciously in accordance with the directives and intent of the Revised Charter of Honolulu, Revised Ordinances of Honolulu, and department policies and procedures; ensure requesting agencies provide complete and accurate information before certifying requests for employer-employee contracts; ensure quarterly reports of personal services contracts provide complete and accurate information; include supplemental analysis of personal services contract information in its quarterly reports to the council and public; report additional information with its quarterly reports, including total cost of contracts, number of contracts previously awarded to a contractor, and number of times a contract position has been renewed; assert its authority to review and approve personal services contracts; require departments and agencies to report the minimum and maximum salaries of existing employees serving in the same or similar capacity at the time of the contract request; require departments and agencies to submit official academic and professional credentials that ensure contractors meet class specifications for their appointments; require departments and agencies to conduct formal, written evaluations of employees hired on personal services contracts; and direct departments and agencies to continue requesting to fill long-term personal services contracts permanently or through limited-term civil service appointments, as appropriate.

We also recommended that the Department of Budget and Fiscal Services report information regarding all employer-employee contracts within 30 days following the end of each fiscal year as required in the Revised Ordinances of Honolulu; report additional annual information such as total cost of personal services contracts, salaries and fringe benefits, and

funding sources; post public notice of requests to enter into personal services contracts at least seven days before final approval of the request as required by the Revised Ordinances of Honolulu; and cease using personal services contract status to make retroactive payments to former city employees and develop an alternative method.

Audit of the City's Debt Service Practices

This audit was conducted pursuant to the Revised Charter of Honolulu. The City Auditor selected this audit due to longstanding concerns expressed by the Honolulu City Council and the public regarding the City's growing debt payments and their impact on the operating budget. We found that the responsibilities for the City's debt have become a fragmented operation overseen by two different departments, and the City has no comprehensive strategic plan to resolve its debt management problems. We also found that the City's reliance on the same underwriters for the past three years of bond issuance, using the negotiated sales method raises concerns.

We recommended that the Department of Budget and Fiscal Services consider obtaining the services of an independent professional municipal debt organization to formally evaluate the City's current debt management program, practices, organization, resources, and staffing to develop an action plan with recommendations for a comprehensive, unified debt management program that addresses the city's overall fiduciary interests; establish a formal succession plan to ensure that there is proper cross-training in debt management; develop and take steps to issue an annual report on all of the City's debt for the City Council and taxpayers; establish practices to identify and scrutinize low dollar value equipment purchases by city agencies and report on the City's compliance with the City's debt policy; reconsider the City's use of underwriters as financial advisors; reconsider its procurement practices; consider competitively selecting an independent financial advisor to represent only the City's interests in bond sales transactions; and make use of established training by independent, nationally recognized municipal finance and debt organizations.

Captive Insurance Study for the City and County of Honolulu

This study was conducted pursuant to Section 3-114 of the Revised City Charter of Honolulu and Council Resolution No. 05-070, requesting the City Auditor to contract a firm or person to conduct a detailed study of the cost impacts to the City of a captive insurance company. The firm of First Risk Management Services, Inc. conducted the study, which was performed in accordance with Generally Accepted Government Auditing Standards. It was found that a captive insurance company is a feasible risk financing option for the City and will allow the City to better maintain accountability for its entire insurance and risk management program. Other findings included the potential for the City to earn additional income in the range of \$1 - \$3 million annually by placing funds for its long-term liabilities into the captive; and that the largest contributor to the City's Cost of Risk is workers compensation.

The study recommended that the City form a captive to address its risk and liability obligations. It was also recommended that the City centralize oversight of its entire risk management program under the direction of the Department of Budget and Fiscal Services, Risk Management Division. The study further recommended that the City consider purchasing excess workers compensation insurance and have its broker obtain premium quotations in excess of various retention levels.

FY2005-06 APPROPRIATIONS AND EXPENDITURES

The Office of the City Auditor was appropriated a total of \$984,340 in FY2005-06. An additional \$4,000 was transferred to OCA from the City Council to cover any shortages in salaries resulting from the across the board salary increase for FY2005-06, bringing the total budget to \$988,340. Of this total, \$350,000, or 36%, was expended for the City's annual financial audit contract, which OCA oversees for the council. OCA's total appropriated operating budget was \$638,340—of which \$490,140 was for staff salaries and \$148,200 was for office operations and equipment. Of the \$148,200, \$100,000 was budgeted for the contracting out of the Captive Insurance Study for the City and County of Honolulu. However, the contract total came to \$64,900 — \$35,100 under the budgeted amount for the contract. Approximately \$42,946 in unspent appropriations was returned back to the City's treasury at the end of the fiscal year.

OCA FY2005-06 Application of Resources

